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Rush Job Tops Off Construction Talks

Last-minute arm-twisting by Prime Minister Toshiki Kaifu pushed Japanese negotiators June 1 to accept a compromise agreement that increases foreign access to Japan's public works market, thus averting American sanctions on Japanese contractors operating in the United States. The compromise will put 17 more projects under the umbrella of the 1988 Major Projects Agreement, doubling the number covered by the pact. In addition, the MPA was strengthened in several areas to address weaknesses that had surfaced during its implementation. Although the new agreement has been welcomed almost universally, it still may not satisfy the long-term goal of U.S. architects, engineers and contractors to obtain a significant share of Japan's huge construction market.

The White House had been pushing for a more open Japanese construction market for several years before successfully negotiating the MPA in May 1988. That agreement established special rules to help foreign firms gain experience with Japan's designated bidder system and provided 17 projects for which they

Riegle measure to the Senate floor for a vote. Yet in light of the strong margin of Senate support for the fast-track extension, Washington watchers are dubious that the measure could gain sufficient votes to survive in that chamber. The legislation is expected to be brought up in late June or early July and could be considered on its own or as an amendment to another bill, an aide to Sen. Riegle said.

U.S. Trade Representative Carla Hills is scheduled to meet with Mexican and Canadian trade officials in mid-June to agree on an action plan for the NAFTA talks. Bolstered by the Gephardt-Rostenkowski resolution and the possibilities presented by the Riegle proposal, Capitol Hill is likely to keep a careful watch on the upcoming negotiations.

Margo Grimm

Bankruptcies Continue Rising In Japan

From 1988 through much of 1990 tracking the direction of the Japanese economy was a snap. One could pick virtually any economic statistic and it would show the economy on a rapid upward path. The data on bankruptcies, for example, were particularly dramatic: business failures fell for 69 straight months through last October and 1990 showed a sharp overall decline from 1989, according to data released by the Teikoku Data Bank, Ltd. (see Table). Beginning in November, however, and continuing through at least April (the latest month for which data are available) this trend has reversed, with bankruptcies rising every month over year-earlier levels. April bankruptcies, for example, increased 59 percent, while the total liabilities of the covered companies soared 304.8 percent.

Bankruptcies in Japan, 1980-91*

		Cases	Total Liabilities (billions of yen)	Average Liabilities (millions of yen)
1980		17,884	Y2,707	Y151.4
1981		17,610	2,692	152.9
1982		17,122	2,355	137.5
1983		19,155	2,564	133.9
1984		20,841	3,626	174.0
1985		18,812	4,186	222.5
1986		17,476	3,752	214.7
1987		12,655	2,055	162.4
1988		10,123	2,059	203.4
1989		7,234	1,195	165.2
1990		6,468	1,944	300.6
1991	January	646	642	993.8
	February	676	329	486.7
	March	773	791	1,023.3
	April	835	855	1,024.0

*Included are bankruptcies of corporations and unincorporated enterprises.

Source: Teikoku Data Bank, Ltd.

The companies failing this year are of record size. In March and April liabilities of the average bankrupt company topped Y1 billion ($7.4 million at Y135=$1.00) for the first time. Nearly half the total for April came from two firms: Shizushin Lease Corp., with debts of Y256.2 billion ($1.9 billion), and Nippon Saiken Toshi K.K., which owed Y150 billion ($1.1 billion). Even if these two companies were to be omitted, the average failed company would have been significantly larger in April 1991 than a year earlier.

Failures in the construction and the real estate industries accounted for 46 percent of the surge in April bankruptcies. Firms in these two businesses appear to be caught between softening land prices and higher interest rates. A Teikoku Data Bank official said that the level of bankruptcies is likely to remain high or increase for the next six months even if the Bank of Japan, as widely expected, eases monetary policy and permits interest rates to fall.

BOJ or other officials are unlikely to lose any sleep on hearing the latest figures. Not only do a fair number of other economic indicators remain at least modestly bullish, the bankruptcy data have not proven particularly good indicators of the state of the economy in recent years. For example, the number of bankruptcies generally rose during the early 1980s despite average real economic growth of nearly 3.5 percent; the peak of 20,841 bankruptcies came in 1984. From 1985 to late 1990 the number consistently declined. Even when inflation-adjusted growth dipped in 1986 to 2.6 percent, the lowest rate since 1974, bankruptcies fell from the previous year's total. If the pace of the first four months is maintained for all of 1991, the number of bankruptcies will return to slightly more than the 1989 level but less than half the 1984 figure. Such a rate would imply that approximately one in every 300 Japanese firms will go bankrupt in 1991.

Rather than providing definitive information about the Japanese economy in general, the bankruptcy data are best seen as indicative of the financial dislocations that face an economy adjusting to higher interest rates. As such, they are part of a pattern that includes evidence of increasing problems at smaller Japanese financial institutions (see JEI Report No. 15B, April 19, 1991) and a few well-publicized bailouts of large companies that typically sank too many resources into risky real estate ventures. Few of these problems in the financial and the real estate industries have enough of a direct connection to the production of goods and services to make them more of a macroeconomic concern. The fact that bankruptcies arising out of labor shortages -- although still only 5 percent of all cases and 1 percent of total liabilities -- are on the upswing is a sign that the Japanese labor market remains tight. This, in turn, is important evidence that aggregate demand remains strong. The same figure also illustrates the conflicting signals that Japanese economic data are generating. For the next few months, at least, the economic tea leaf readers will earn their keep.

Douglas Ostrom

MITI To Restrict Trade Insurance Toward Soviet Union

The Ministry of International Trade and Industry's Export-Import Insurance Division reportedly has decided to tighten the criteria for providing

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